FK Market Commentary

A publication of Finanz Konzept AG, Zürich

1st Edition 2024

IMPRINT

Publisher Finanz Konzept AG Fraumünsterstrasse 27, 8001 Zürich, Schweiz
Marketing Lars Oberle
Composition Lars Oberle
Assistance Xeno Marugg
Frequency semi-annual
Art Direction HRCD Design Bureau, Heiko Rossmeissl
Images Milan Rohrer, Josefstrasse 20, 8005 Zürich, Schweiz

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Dear clients of Finanz Konzept AG, dear readers!

The second half of 2023 largely followed the same path as the first six months. The decline in inflation coupled with the anticipation of interest rate reductions, fueled the markets. While the US markets surged, driven by the robust performance of major tech stocks, the scenario in other markets exhibited a more varied yet generally positive trend. European shares experienced a gain of 13%, the DAX increased by 7%, and the SMI witnessed a modest decline of just over one percent, primarily attributed to the strength of the Swiss franc. Despite the property crisis in China, the outlook in the region appears less sanguine than three years prior; however, it remains notably more positive than in many other European countries.

The risk of a recession is real and already a reality in some countries, notably Germany. However, the stock market appears to be unimpressed by those developments. It remains unimpressed even in the face of the persistently inverted yield curve, the tense economic situation in China, and the geopolitical complexities of two ongoing wars, both of which hold the potential to significantly impact oil prices and consequently, the broader economy. Despite the apparent positivity observed within the stock market, exercising prudence is strongly advised. Various risks are present, and their realization could potentially trigger a reversal in equity markets.

On the bond markets, a recovery is evident and is poised to continue if inflation continues to fall and interest rate cuts materialize to the extent expected by the market.

The uncertainties surrounding the geopolitical conflicts over the last six months are reflected in the volatile commodity markets, leaving the trajectory for the upcoming year uncertain.

Cryptocurrencies, conversely, are undergoing a robust surge in prices, culminating in a substantial year-end gain. It appears that the market has successfully left the bottom since the last crash, regaining momentum for a formidable rally ahead.

We wish you a thrilling read!

Yours sincerely

Lars Oberle

Director of Finanz Konzept AG

INTERNATIONAL INVESTOR AWARD WINNER 2020

FINANZ KONZEPT INDEPENDENT WEALTH MANAGEMENT FIRM SWITZERLAND// 2020

In Short

Money- and Capital Markets Capital market interest rates in % (10y government bonds)

	30.06.23	31.12.23	6 M	12 M
CHF	0.965	0.701	↘	↘
EUR (DE)	2.393	2.028	↘	↘
GBP	4.386	3.539	↘	↘
USD	3.820	3.866	↘	↘
JPY	0.401	0.616	↗	→

- Policy rates tend to remain at a relatively high level
- Inflation weakens
- The Japanese policy rate remains low

We recommend:
- Long-term bonds to benefit from falling interest rates
- Short-term bonds to benefit from the highest interest rate

Stock Markets Indices

	30.06.23	31.12.23	6 M	12 M
SMI	11'280.29	11'137.79	→	↘
EUR STOXX 50	4'003.92	4'521.44	→	↘
FTSE 100	7'531.53	7'733.24	→	↘
S&P 500	4'450.38	4'769.83	→	↘
Nikkei	33'189.04	33’464,17	→	↘
DAX	16'147.90	16'751.64	→	↘

- The upward trend continues despite weakening GDP
- China falls due to the real estate crisis

We recommend:
- Defensive positioning of the portfolio, but staying in the equity markets
- Being prepared for falling prices
- Concentrating on quality/value stocks

Forex Markets Currencies

	30.06.23	31.12.23	6 M	12 M
EUR / CHF	0.977	0.929	↗	↘
EUR / USD	1.092	1.104	↗	↗
EUR / JPY	157.62	155.65	↗	↗
GBP / CHF	1.137	1.071	↗	↘
USD / CHF	0.8953	0.842	↗	↘

- A very strong Swiss franc is posing difficulties for the Swiss economy
- The yen remains at a low level

We recommend:
- The yen remains a strong buy

Commodities in USD

	30.06.23	31.12.23	6 M	12 M
Crude WTI (USD)	70.64	71.77	→	→
Gold (USD)	1'921.10	2'062.97	↗	↗
Silver (USD)	22.81	23.79	↘	↘
Platinum (USD)	913.20	994.20	↘	↘

- Oil remains relatively low despite the conflicts in the Middle East
- Further development depends heavily on the further course of the wars
- Precious metals rise

We recommend:
- Holding gold is recommended
- Avoid industrial metals, as demand will fall as GDP declines

Crypto-Markets

	30.06.23	31.12.23	6 M	12 M
BTC (USD)	30'389.00	42’152.10	↗	↗
ETH (USD)	1'926.97	2'283.30	↗	↗
XRP (USD)	0.4760	0.6154	↗	↗
SOL (USD)	17.99	101.59	↗	↗
LTC (USD)	107.30	72.82	↗	↗

- Cryptocurrencies experience a strong rally
- Volatility remains high

We recommend:
- Realize existing gains to avoid an overweighting of cryptocurrencies in the portfolio
- Do not get greedy

Rebound for US Big Tech Stocks

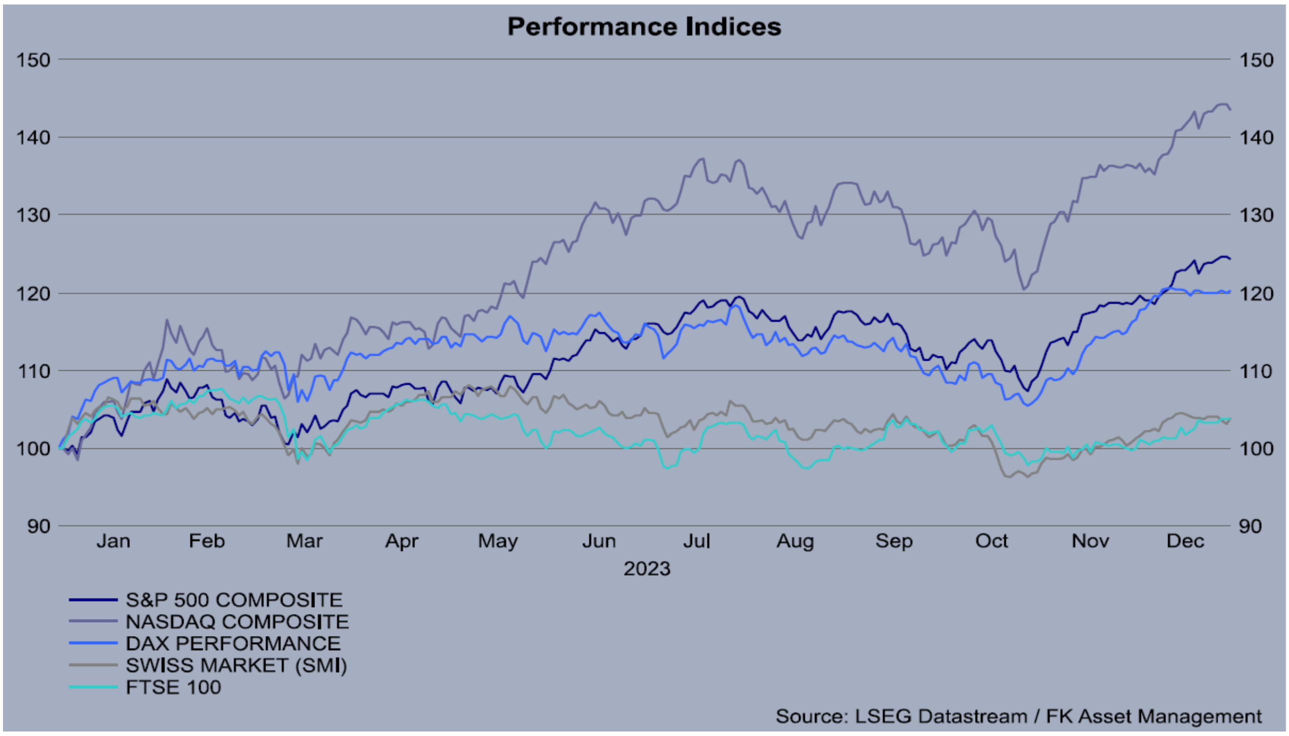
After a poor 2022 for the technology sector, a strong recovery in technology stocks could be observed in 2023. The upward movement of the markets in the first half of the year was temporarily dampened in the third quarter, only to recoup losses in the fourth quarter and reach new highs for the year. This change was triggered by an improvement in inflation data, which led to increased optimism. Expectations that interest rate hikes will come to an end in the foreseeable future and that even rate cuts are likely contributed to this positive sentiment.

The bulk of this performance was again driven by the so-called "Magnificent 7", the largest US technology stocks, which include Apple, Amazon and Nvidia, for instance. A look at an equally weighted S&P 500 Index illustrates what the market would look like without the heavy weighting of these large technology stocks. This index recorded less than half the return of the conventional S&P 500 Index over the year.

The positive sentiment was not dampened by the accumulation of further conflicts, such as the incidents in Israel or the Red Sea with the Huthi rebels. Despite a persistent inverted yield curve, potential dangers from the war in the Ukraine, the tense economic situation in China and declining GDP growth figures in Europe and the US, the stock market still seems confident of a "soft landing". This describes an economic recovery without a recession, which is expected in Europe and the USA in particular. The VIX volatility index reached lows not seen since the coronavirus crash, despite the tense global situation.

In contrast to other markets, the property crisis in China had a major impact on the Chinese stock market. Although there were fears of the crisis spreading to other markets in the third quarter, these concerns more or less disappeared in the fourth quarter. The Chinese stock market index MSCI China recorded a loss of 11% for the year and 6.5% for the second half of the year only. However, apart from the risks arising from the property crisis, China has seen an increase in GDP growth compared to the previous year and is not struggling with inflation, which is why we believe the pessimism around China is exaggerated.

Presently, an array of variables introduces complexity, rendering precise forecasts of future developments challenging. Prospective shifts in interest rates, unfolding events in China, and subsequent actions taken by parties engaged in the ongoing conflicts all possess the potential for abrupt and consequential impacts on the economy and share prices. In our assessment, a VIX of approximately 13 is clearly too low given the present circumstances, as it fails to incorporate all plausible negative scenarios. The equity market appears to be inadequately pricing in the associated risks, and substantial price declines should be anticipated should any of these risks materialize.



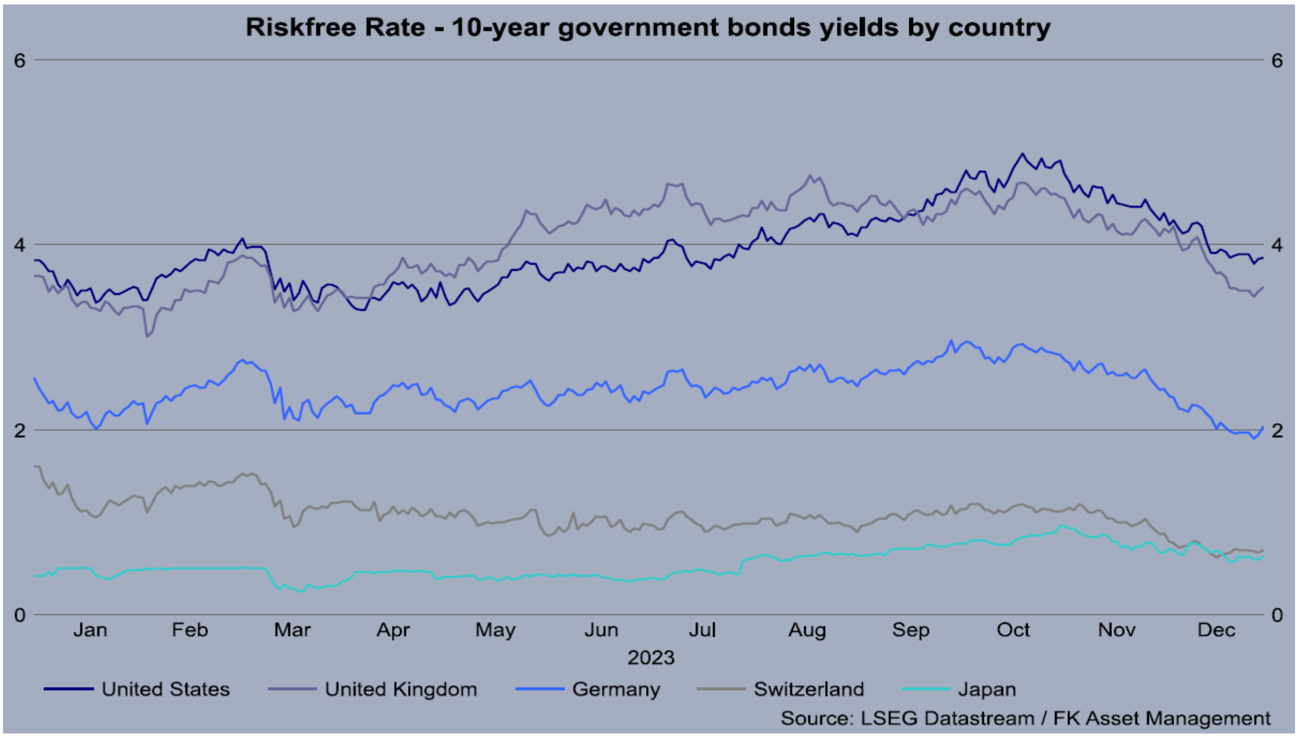
Opportunities from Possible Interest Rate Cuts

The bond markets exhibited a robust recovery towards the conclusion of the latter half of 2023. The catalyst for this rebound was a decrease in inflation, fostering optimism for potential interest rate cuts in 2024, despite efforts by central banks to temper such expectations. It is important to exercise caution and not become too optimistic here. The central banks expressly emphasize that there is no rush to cut interest rates and that they do not want to act hastily. Nevertheless, interest rate cuts for 2024 seem very likely, but the question is whether these will be as high as the expected 3-5 cuts by the Fed and ECB in 2024. Inflation in the US has fallen continuously since mid-2022 and stood at 3.4% at the end of the year. A comparable figure had already been reached by the middle of the year and remained stable for the entire half-year. In the European Union, the inflation rate fell from 5.5% in the middle of the year to 2.9% at the end of the year.

Despite these declines, inflation rates have not yet reached the target of 2%. Inflation in the USA has already been stuck between 3 and 3.5% for six months. A hasty interest rate cut could catapult rates upwards again. However, if they remain at around 3.5%, another year without interest rate cuts could well be realistic.

While the yield on long-term bonds surpasses that of medium-term bonds, it remains relatively low overall. In our opinion, the low yield premium compared to medium-term bonds does not justify the restrictions in terms of liquidity. Due to the inverted yield curve, short-term bonds currently offer a higher yield than medium and long-term bonds, which makes it seem more attractive to choose short-term bonds to benefit from interest payments. Long-term bonds are currently attractive mainly to benefit from possible future interest rate cuts but are less suitable for long-term investments.

Interest rate hikes are expected in Japan in the upcoming months, which would end a seemingly endless phase of negative interest rates. Although interest rate hikes were initially projected for the end of 2023, they have not materialized as of now. It remains to be seen whether this will change in 2024, although such a development can be considered likely. In such a scenario, the yen would most likely benefit as well, as this would render Japanese bonds more attractive and thus attract foreign money. Initial indications of optimism concerning the Japanese currency are evident in the significant decline of carry trades on the yen in recent weeks.



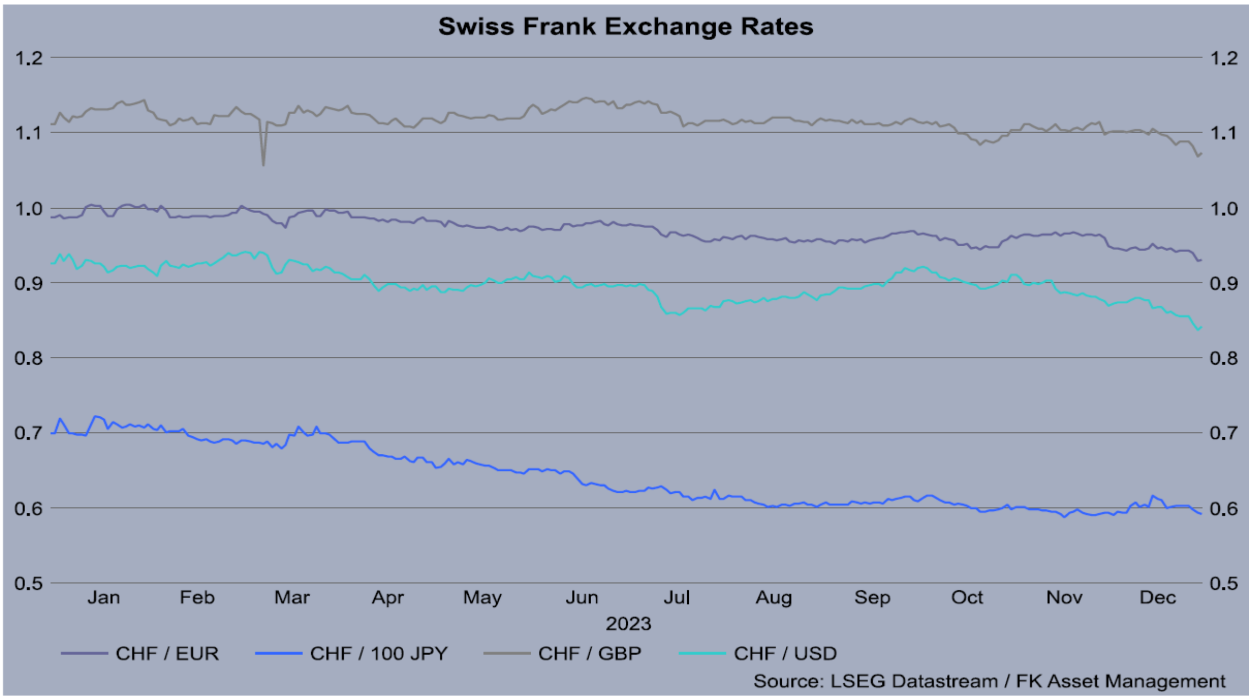
Strong Swiss Franc

The Swiss franc recorded a significant increase in value at the end of last year, clearly outpacing other currencies, as depicted in the chart below. Over the course of the second half-year, the Swiss franc appreciated by around 5% against the euro and the US dollar, with an even higher appreciation against the British pound. An excessively robust Swiss franc poses a disadvantage to the Swiss economy, as it renders exports more expensive, diminishing competitiveness in the global market. While strong inflation in the destination country could potentially offset this impact, this was only partially the case last year. Additionally, Swiss investors faced a second drawback as they encountered a substantial reduction in returns when investing in assets denominated in other currencies.

Partly a reason for the different developments of the currencies was the difference in inflation rates between Switzerland and other countries. According to the law of purchasing power parity, a currency is expected to appreciate or depreciate in the long term by a percentage equal to the difference in inflation rates. Another influencing factor are interest rate differentials. If one country is undergoing more significant interest rate cuts than another country, as observed between the USA and Switzerland, for instance, it suggests that lower returns on capital are soon to be expected in the USA. Consequently, capital flows towards countries with lower interest rate cuts, in this case Switzerland, contributing to the depreciation of the currency in the country with higher interest rate cuts. This effect could be observed at the end of 2023.

Cryptocurrencies sustained their upward trajectory in the second half of the year, building on the momentum established in the first half, and achieved substantial gains. The leading cryptocurrency, Bitcoin, gained 38% in the second half of the year, reaching a final value of $42,152. Ethereum ended the year at $2,292 while smaller currencies such as Solana experienced an impressive gain of 466%.

Further price gains are expected in the cryptocurrency market in the coming years. Due to the challenges in evaluating the fair value of cryptocurrencies and the ambiguous practical application of numerous projects, price movements in this domain are highly speculative. Such forecasts should therefore always be treated with caution. Nevertheless, despite the high price gains in the past year, the market is still a long way from an all-time high and, from this point of view, represents a more attractive buy than it did 2.5 years ago.



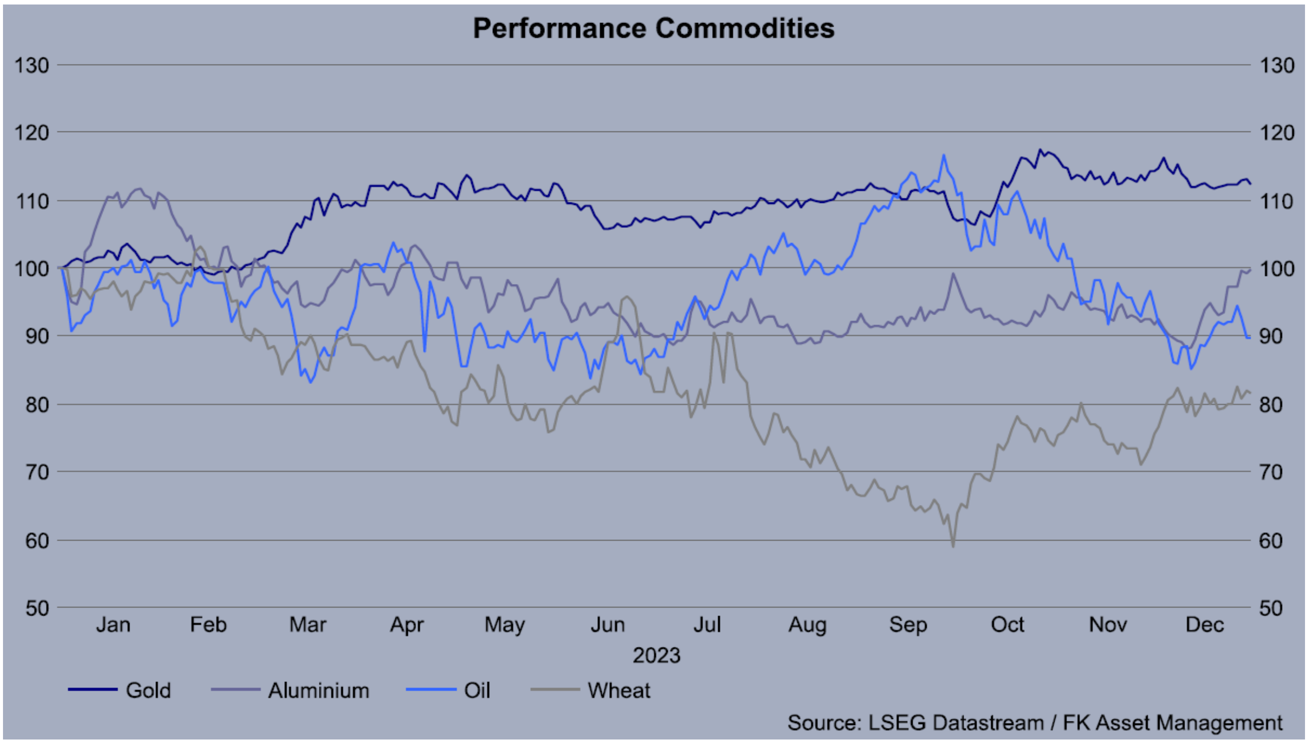
Insecurities Regarding Commodities Remain

The commodities remains volatile. Although numerous commodities underwent substantial fluctuations in the latter half of 2023, they concluded at a comparable level to the one observed in the middle of the year. Initiated by production reductions by OPEC+ countries, the oil price witnessed a notable surge at the onset of the second half-year, only to revert to approximately its initial level in the latter half. This decrease is primarily attributable to a general increase in oil supplies due to a rise in production volumes by other countries, notably the USA.

The uncertainties arising from the conflict in Israel and the rocket attacks by the Houthi rebels were unable to dampen the effect of the relief in terms of oil supply. Also despite the possibility of an escalation and thus a tense 2024 for oil. An upswing in the oil price could instigate a fresh wave of elevated inflation. Additionally, in such a scenario, vessels might face restrictions in traversing the Suez Canal, compelling them to navigate around Africa. This would boost transport costs, thereby contributing to further inflation. For this reason, great caution is the watchword for 2024.

Gold remains a reliable store of value in times of crisis. Over the first half of the year, the precious metal recorded a substantial gain of 7.5%. After a minor slump after Q3, it experienced a strong boost in the weeks following the Hamas attacks on Israel and the subsequent invasion of the Gaza Strip by Israel. This additional uncertainty probably contributed to the price rise.

The tense situation on the grain market has steadily improved since the start of the war in the Ukraine. After very high prices in Q2 of 2022, a constant decline in prices occured. The reason was that the Ukraine was able to export a large quantity of wheat despite the war and that Russia joined in with strong grain production. At the end of the second half of the year, the price of wheat rose slightly, along with the stock markets. This price increase was mainly due to drought in Argentina and Australia, which raised concerns about a possible shortage.



Excursion: Buy AI-Stocks before it is too late?

In 2023, the term "artificial intelligence" (AI) was omnipresent on the trading floor. Nvidia, as one of the leading beneficiaries of the AI hype, reached one high after another and seemed to know no limits. The catalyst for this success was the emergence of the new voice assistant, ChatGPT, which remarkably showcased the intelligence and efficiency that AI is already able to exhibit. As a result, investments in the field of AI experienced a sharp rise and shares in the AI sector recorded significant price gains. This includes not only AI software companies, but also companies such as Nvidia, whose hardware is used for AI applications. The question arises: Is it already too late to jump into the arena before potential opportunities diminish, or have price gains already reached its peak?

In addressing this query, it is crucial to bear in mind that euphoria easily leads to irrational decisions. The fact that a particular sector has made considerable gains should not in itself be a sufficient reason to buy in. It is important to note that the economy always moves in cycles, with phases of bull markets and phases of bear markets. This applies not only to the economy as a whole, but also to individual sectors in turn.

An illustrative example of this can be found in the decade before 2011. At that time, commodity shares experienced a boom due to high commodity prices, fueled by strong demand from China. Companies invested heavily in exploration projects to extract more metals such as copper or iron ore. Around the year 2011, the projects began to bear fruit and the supply of raw materials rose sharply. The increased supply, combined with a weakening Chinese economy and thus lower demand, led to oversupply and falling prices, which caused financial difficulties for many commodity companies. This illustrates how a sector can transition into a bear market due to a weak decline in demand coupled with an increase in supply.

Another example is the internet bubble in 2000. The internet was perceived as an industry with almost unlimited possibilities and no internet company could be priced too high. The Nasdaq 100 rose by over a whopping 100% in 1999, only to fall by an impressive 80% in the following three years. Even though the Internet has become an integral part of our lives today, and the original premise has proven true over time, it was challenging to foresee which companies would ultimately emerge as beneficiaries during that period. The once-favored companies, such as Cisco or Intel, are still trading below their highs in the year 2000 and have been replaced by companies such as Google or Meta (ex Facebook), which count themselves to the winners of the Internet.

Investment has also risen sharply in the field of AI hardware. An emerging industry such as AI, with its enormous profit potential, attracts considerable amounts of capital that will sooner or later lead to results. These results will lead to an increase in supply and affect the sector's profit margins. It is almost guaranteed that in the long term Nvidia will struggle to maintain the same level of growth seen in its AI hardware sales during 2023 in the long term. Given the current high valuation, the share price will suffer greatly if this materializes.

A notable parallel can be drawn between Intel and Nvidia. In the lead-up to the year 2000, Intel soared to prominence on the back of its processors integral to various internet hardware. Similarly, today, Nvidia is experiencing a comparable trajectory, driven by its hardware designed for AI. Although Intel processors are still used in many devices today, Intel was unable to convert this demand into adequate profits after the bubble burst. This will most likely also happen to Nvidia sooner or later. It should therefore be emphasized that despite the promising outlook for the AI sector, it is not clear which companies will ultimately benefit from it in the coming years. For that reason, an investment in Nvidia or the sector in general carries a high degree of risk.

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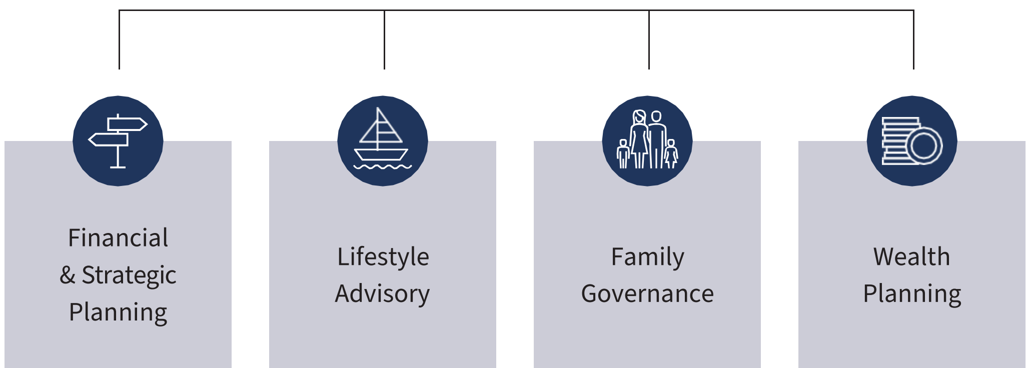

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